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FISCAL IMPACT STATEMENT

LS 6851

BILL NUMBER: HB 1831

NOTE PREPARED: Jan 25, 2005

BILL AMENDED:

SUBJECT: Expenditure Limitations.

FIRST AUTHOR: Rep. Smith J

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
X FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill limits the annual percentage increase in state expenditures to the lesser of: (1) 6%; or (2) the sum of the percentage increase in state population plus the rate of inflation. The bill allows voters or two-thirds of the members of the General Assembly to authorize additional spending and authorizes enforcement of these provisions by a private individual civil action or class action. The bill repeals business cycle state spending controls replaced by the spending cap established by this act.

Effective Date: July 1, 2005.

Explanation of State Expenditures: *Expenditure Limits:* This bill establishes a maximum annual percentage change for state government expenditures to be based on the sum of the percentage changes in inflation, defined as the percentage change in the Consumer Price Index (CPI), and in population. The maximum annual percentage change may not exceed 6%. If revenues exceed the expenditure limit, the excess shall be refunded in the next state fiscal year, except for an amount the majority of voters agree to apply toward an increase in allowable spending. The General Assembly may authorize spending that exceeds the expenditure limit if a concurrent resolution is adopted by a 2/3 majority of the members of both the House and Senate.

The bill repeals the expenditure limits set out in P.L. 192-2002(ss). P.L. 192-2002(ss) established a maximum annual percentage change for state government expenditures to be based on the percentage change in Indiana nonfarm personal income over the last six calendar years or 6% beginning in FY 2006. The expenditure limit for FY 2004 and FY 2005 was 3.5%.

The bill allows individuals to file a lawsuit to enforce the state expenditure limits. Successful plaintiffs are

allowed costs and reasonable attorney fees. The state may recover costs and reasonable attorney fees if a suit is ruled frivolous.

This bill applies to appropriations beginning in FY 2006. According to the December 14, 2004, *Reserve Statement*, FY 2004 budgeted appropriations were \$11,280.8 M and FY 2005 budgeted appropriations were \$11,505.8 M. FY 2005 budgeted appropriations were 2% higher than FY 2004. The average annual change in CPI for the last five calendar years has been 2.5%. The average annual change in population estimates has been less than 1% in four of the last five years. Depending on the level of inflation and change in population in 2004 and 2005, FY 2006 expenditures could be restricted to approximately a 3.5% increase. The spending limitation under current law is approximately 3.5% for FY 2004 and FY 2005.

The December 2004 revenue forecast projects a 3.8% increase in General Fund and Property Tax Replacement Fund revenue for FY 2006, and a 5.3% increase for FY 2007.

The impact on state spending and the amount of revenue which would be available for refund is subject to legislative, executive, and judicial actions.

Background Information: The average annual change in the calendar year CPI and population for the last five years, as well as the maximum limits set out in this bill, are identified below.

<u>Year</u>	<u>% Change CPI</u>	<u>% Change in Population</u>	<u>Max %</u>
1999	2.19%	0.60%	2.79%
2000	3.38%	1.71%	5.09%
2001	2.83%	0.57%	3.40%
2002	1.59%	0.50%	2.09%
2003	2.27%	0.67%	2.94%

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: *Expenditure Limits:* Distributions of state revenue to local units of government are dependent on the disposition of state appropriations.

State Agencies Affected: Attorney General's Office, State Budget Agency, General Assembly, Treasurer of State.

Local Agencies Affected: All.

Information Sources: *GF & PTRF Statement of Combined Estimated Unappropriated Reserve*, July 12, 2004 - State Budget Agency; December 14, 2004, *State Revenue Forecast* - Revenue Forecast Technical

Committee; U.S. Census Bureau.

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